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February 18, 2009

AGENDA ITEM 7a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Contracting Agencies' Risk Pool Analysis

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Information Only

IV. BACKGROUND:

At the December 16, 2008 Health Benefits Committee (HBC) meeting, staff presented an update on the status of contracting agency recruitment and retention efforts.

This agenda item addresses the Committee's questions regarding the added risk of increased contracting agency participation in the Public Employees Medical and Hospital Care Act (PEMHCA) program.

V. ANALYSIS:

Using the Health Care Decision Support System (HCDSS), staff analyzed the impact of new contracting agencies on the CalPERS risk pool.

Methodology

Staff identified new contracting agencies joining PEMHCA beginning in 2003, grouped them by year, and calculated each group's risk factor using Diagnostic Cost Group (DCG) modeling tools. DCG tools are a set of mathematical models that evaluate health care utilization and costs to produce risk scores. They use age, gender, and diagnosis data from a 12-month period to determine the expected cost or utilization for individuals during the current time period, and the predicted cost for individuals in the future.

Staff limited the analysis to the CalPERS Basic plans and did not include approximately 2,000 new agency CalPERS Medicare plan Total Covered Lives (TCLs) because 2,000 covered lives are not enough to significantly impact risk scores.

Risk Analysis

Staff analyzed the impact of adding new contracting agency covered lives to the 2004, 2005, 2006, and 2007 risk pools.

Between 2003 and 2007, CalPERS added 29,530 new contracting agency covered lives to the 1.1 million CalPERS Basic health plan risk pool, which equates to approximately 3 percent of the TCLs in CalPERS Basic health plans.

The table below lists the number of TCLs added by contracting agencies for each year:

Total Covered Lives Added by New Contracting Agencies		
Group	**Year**	**TCLs**
1	**2003**	4,118
2	**2004**	10,615
3	**2005**	1,872
4	**2006**	2,091
5	**2007**	10,834
	Total	29,530

To produce risk scores for new contracting agencies, staff applied a baseline risk score (1.00) to agencies already part of the PEMHCA program before 2003. Staff then ran DCG tools for each group of new contracting agencies against the baseline and calculated risk scores over time. Results are listed in the table below:

Risk Scores* for New Contracting Agencies Over Time				
New Contracting Agency Group	**2004**	**2005**	**2006**	**2007**
1	1.02	1.09	0.98	0.98
2		1.13	1.09	1.10
3			1.06	1.01
4				0.87
5				0.99
Combined New Agency Risk	1.02	1.12	1.06	1.03

*Baseline risk 1.00 = Average for contracting agencies in the program prior to 2003

A year's utilization experience is necessary to calculate a risk score. Therefore, staff calculated the initial risk score for the first group of new contracting agencies (who joined at various dates throughout 2003) using 2004 utilization data. That risk score appears in the 2004 column. Similarly, the initial risk score for the second group of agencies (added in 2004) appears in the 2005 column. For the fifth group, however, 80 percent joined in January 2007 and the remainder by March 2007. This created enough data to calculate a 2007 risk score for this group and the score appears in the 2007 column.

The analysis of new contracting agency risk scores over time shows:

- The fourth and fifth new contracting agency groups (added in 2006 and 2007) have lower risk scores than the baseline.
- New contracting agencies' risk scores generally trended downward over time.
- The risk score for each new contracting agency group is less than the initial level at which it entered the program.

  Note: Fluctuations in group risk scores are a result of changes in utilization, employee turnover, and workforce increases.

Finally, to analyze the impact of new contracting agencies on the entire CalPERS Basic health plan risk pool, staff ran DCG tools against groupings of covered lives for each year to compare risk scores. The table on the following page shows the impact of adding new contracting agencies:

Impact of Adding New Contracting Agencies				
Year	**Baseline Contracting Agency Risk (agencies added before 2003)**	**New Contracting Agency Risk**	**Combined Baseline and New Contracting Agency Risk**	**Combined CalPERS Risk***
2004	1.00	1.02	1.00	1.00
2005	1.00	1.12	1.00	0.99
2006	1.00	1.06	1.00	1.01
2007	1.00	1.03	1.00	1.01

*Baseline contracting agency, new contracting agency, and state covered lives combined.

The addition of new agencies to the risk pool has not affected existing contracting agency risk, nor has it affected combined CalPERS risk scores rounded to the nearest hundredth.

Conclusion

When comparing DCG risk scores, less than a hundredth point difference is not statistically significant. To date, adding new contracting agencies has not significantly impacted the CalPERS risk pool.

VI. STRATEGIC PLAN:

This item supports the CalPERS Strategic Plan Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

This is an information item.

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